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C O N F I D E N T I A L SECTION 01 OF 02 KYIV 001518

SIPDIS

DEPT FOR S/EEE, EUR/UMB, EB/ESC/IEC
DOE PASS TO JELKIND, LEKIMOFF, CCALIENDO, CMCGregor
NSC PASS TO KKVien

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SUBJECT: UKRAINE: TYMOSHENKO PROMISES A "GAS CHRISTMAS"

REF: A. MOSCOW 2277

[1](#)B. KYIV 1274

Classified By: ECON Counselor Edward Kaska for reasons 1.4 (b,d)

[1](#)1. (SBU) Following talks with Russian Prime Minister Putin in Poland on September 1 (Ref A), Prime Minister Tymoshenko stated that Ukraine would not experience a gas crisis this January. Tymoshenko also stated that the gas transit fee charged to Russia's Gazprom would increase in 2010, contradicting claims in the Ukrainian and Russian press that Ukraine had agreed to lower transit fees in exchange for Russia's pledge to waive penalties for lower gas purchases. One of Tymoshenko's advisors also intimated that Russia agreed to lower gas volumes in exchange for a promise to grant Russia's TVEL the contract to build a nuclear fuel assembly plant in Ukraine. President Yushchenko charged that Russia could still decide to levy fines against Ukraine at any point without a written amendment to the January contract. If carried out, higher gas transit prices and lower volumes would give Naftohaz some relief in 2010 and likely strengthen Tymoshenko's campaign efforts.

[1](#)2. (SBU) At a Cabinet of Ministers meeting on September 3, Prime Minister Tymoshenko stated that "Both sides -- Russia and Ukraine -- agreed that for (Orthodox) Christmas there will not be the traditional stunts such as gas crises." Tymoshenko previously stated that Russia had agreed to allow Ukraine to take only as much gas as it needs, given the severe economic downturn. The Prime Minister has said that Ukraine will need to purchase between 27 and 33 billion cubic meters (bcm) of gas from Russia in 2010. The January 2009 gas supply contract calls for Ukraine to purchase 52 bcm in 2010, but allows Ukraine, under the take-or-pay provision, to purchase only 80 percent, or 41.6 bcm. The contract also allows Ukraine to negotiate reduced annual volumes but states negotiations should begin by July 1 of the current year and limits any reduction in volumes to not more than 20 percent. Taking both these provisions into account, the contract does, in theory, allow Ukraine to take only 33.3 bcm in 2010.

[1](#)3. (SBU) Tymoshenko also refuted allegations made by unnamed Russian and Ukrainian government sources that transit fees for 2010 would remain at the 2009 level. Tymoshenko estimated that under the terms of the existing contract 2010 transit fees would rise 65 to 70 percent from \$1.70 per thousand cubic meters (tcm) per 100 kilometers (km) to \$2.80-2.89/tcm/100 km. Tymoshenko's estimates are slightly more optimistic than state oil and gas company Naftohaz's, which previously stated that 2010 transit fees would increase by 57 to 60 percent from 2009 levels to \$2.67-2.72 per tcm/100 km. The spokesman for Russia's Gazprom stated on

September 3 that 2010 transit fees would range from \$2.56-2.70 per tcm/100 km.

¶4. (C) Rada Deputy and energy advisor to Tymoshenko Aleksandr Gudyma intimated that Russia's agreement to lower gas volumes came in exchange for a promise to grant Russia's TVEL the contract to build a nuclear fuel assembly plant in Ukraine. Gudyma was quoted as saying that Ukraine was considering proposals from both TVEL and America's Westinghouse, and while a decision had not yet been made, he expected the contract to be awarded to TVEL in the nearest future. At a meeting with Westinghouse vice presidents in July, Prime Minister Tymoshenko stated that Ukraine could not take a decision now and explained that Russia could raise gas and nuclear fuel prices for Ukraine if Westinghouse were awarded the contract. Tymoshenko recognized Westinghouse's efforts to bolster Ukraine's energy diversification when she met with Vice President Biden in July (Ref B).

¶5. (C) President Yushchenko welcomed the announcement that Russia would waive penalties against Ukraine for taking lower gas volumes but warned that without a formal, written agreement, Russia could still levy over \$5 billion in fines against Ukraine for under purchasing gas in 2009. Yushchenko's International Energy Security Representative, Bogdan Sokolovsky, characterized the Tymoshenko-Putin agreement as a "PR step" for Tymoshenko. He told us that both Naftohaz and Gazprom management were prepared to make changes in the January 2009 contract to reflect the agreement reached between Tymoshenko and Putin but had not been instructed by their respective governments to do so.

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Sokolovsky also charged that Tymoshenko was thinking tactically about the presidential elections and was not concerned if she happened to undermine Ukraine's long-term energy security in the process.

¶6. (SBU) Comment. Politicians will continue to point fingers, but Tymoshenko appears to come out on top, for now, with this agreement. However, Naftohaz will still face financial problems next year. If reports of the Putin-Tymoshenko talks are accurate, Russia's decision to let Ukraine purchase only what it needs in gas will ease Naftohaz's growing financial burden and could bolster Tymoshenko's presidential campaign by showing she was able to avoid conflict with Russia. Nonetheless, the contracted price of gas under the January 2009 agreement jumps by 20 percent at the beginning of 2010, meaning Naftohaz will still have difficulty making its gas payments - even with the lower volumes to be purchased. But that will only become clear to most after the January presidential elections. For his part, President Yushchenko will likely continue to criticize Tymoshenko for the 2009 contract, while Party of Regions' Viktor Yanukovich's argument that he would be able to secure more favorable terms for Ukraine's gas purchases might seem less convincing.
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